

ANNUAL REPORT OF THE POSTMASTER GENERAL

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL SECURITY,
PROLIFERATION, AND FEDERAL SERVICES

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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ANNUAL REPORT OF THE POSTMASTER GENERAL

MONDAY, NOVEMBER 3, 1997

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL SECURITY,
PROLIFERATION, AND FEDERAL SERVICES,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:31 p.m., in room SD-342, Dirksen Senate Office Building, Hon. Thad Cochran, Chairman of the Subcommittee, presiding.

Present: Senators Cochran, Domenici, Levin and Cleland.

OPENING STATEMENT OF SENATOR COCHRAN

Senator COCHRAN. The Subcommittee will please come to order.

Today we welcome Postmaster General Marvin Runyon, who is accompanied by Deputy Postmaster General Mike Coughlin, to our Subcommittee's hearing on the annual report of the Postmaster General.

This hearing offers the Postmaster General the opportunity to report publicly on the state of the U.S. Postal Service. Congress passed the Postal Reorganization Act of 1970 for the purpose of transforming the old Post Office Department from a taxpayer-subsidized executive department to a self-sustaining new entity that would use modern business practices and procedures and operate in an efficient and economical manner.

With approximately 800,000 employees and more than \$56 billion in annual revenues, today's Postal Service far exceeds the size and scope of most U.S. industries. Its management is a tremendous challenge.

Since becoming Postmaster General in 1992, Mr. Runyon has sought to improve service quality and customer satisfaction while improving the financial health of the Postal Service. Under his leadership, the Postal Service has experienced 3 remarkably profitable years. In fiscal year 95, the Postal Services' profit was \$1.8 billion; in fiscal year 96, it was \$1.6 billion; and in fiscal year 97, the profit is expected to be \$1 billion.

Also, Postmaster General Runyon has made impressive progress in helping meet the emerging needs of the users of the Postal Service. According to the most recent annual report, service quality improved during 1996, with an independent accounting firm reporting a national performance average of 91 percent for overnight, on-time, local first-class deliveries.

While these results are encouraging, other performance data suggest that problems remain. For example, last year's delivery of 2-day mail was only 80 percent on time, and 3-day mail deliveries were only 83 percent on time—though it appears some improvements have been made in 1997. And, according to a recent report from the General Accounting Office, the Postal Service and its major labor unions have made little progress resolving their problems.

Earlier this summer, the Postal Service Board of Governors filed a request with the Postal Rate Commission for the third increase in postal rates this decade. The new rates if approved could take effect as early as June 1998. The new increase would average 4.5 percent across all domestic services. This proposed rate hike coincides with recordbreaking profits and makes us wonder whether the increases are justified.

This Subcommittee understands that the Postal Service requires a sophisticated distribution network for collecting, processing, transporting and delivering America's mail, and maintaining this network is a costly enterprise. However, the Postal Service should be able to manage its costs to meet its mandate of universal, customer-friendly service at reasonable and affordable prices.

Mr. Runyon, we welcome you, and we look forward to hearing your report on the state of the U.S. Postal Service. We have a copy of your statement which we appreciate very much, and we will make that part of our hearing record in full and encourage you to make whatever comments in addition to that you may care to.

You may proceed.

TESTIMONY OF HON. MARVIN RUNYON, POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER, U.S. POSTAL SERVICE, ACCOMPANIED BY MICHAEL S. COUGHLIN, DEPUTY POSTMASTER GENERAL

Mr. RUNYON. Thank you, Mr. Chairman, and good afternoon, everyone. With me is Deputy Postmaster General Mike Coughlin, and we are glad to have this opportunity to talk with you today.

The Postal Service is working harder than ever to shoulder the responsibility of delivering America's mail faithfully and effectively. We are squarely focused on our congressional charter to be a "basic and fundamental service to the people," to bind the Nation together with prompt, affordable, and reliable communication services, to serve everyone, everywhere, every day.

I am pleased to say that we are fulfilling this mandate in record fashion. We have just finished another strong year, and I have some positive performance numbers to report this afternoon.

For the third straight year, the employees of the Postal Service have lifted overnight service scores for First-Class Mail to record levels. Over the summer, we achieved a national average of 92 percent for the second straight quarter. That meets our goal for the year and represents the 11th straight quarter of improvement. Since the winter of 1994, we have improved this important service indicator 13 points overall and achieved a national score of 90 percent or better for six straight quarters. We are raising the bar.

In 1998, our goal is to achieve an overnight mark of at least 92 percent while improving service scores for Priority Mail and second- and third-day delivery of First-Class Mail.

In 1997, the Postal Service also achieved its highest ratings ever for residential customer satisfaction—a score of 91 percent in each quarter. This improvement reflects not only our rising delivery scores, but also the many steps we are taking to address our customers' needs for quality and convenience.

In recent years, we have expanded hours of business in many locations. We have provided training in interpersonal skills for 100,000 employees who deal directly with customers. We have equipped post offices nationwide to accept credit and debit cards, recently expanding that convenience to a total of 32,000 locations. And we have now opened more than 500 postal stores, the most customer-friendly retail experience in the Postal Service. In the coming year, we will be using a new "Ease of Use" index to focus managers and employees more squarely on improving key service indicators.

We are also addressing the service needs of our business customers. We are phasing in a new Business Service Network that combines customer resources at the district, area, and headquarters levels. It sets up a central point of contact for resolving service issues that our customers face day to day, and it establishes a two-way dialogue, giving us a link back to customers to find out how well we are meeting their needs.

We have also set up more than a dozen work groups with customers to address and improve some key areas of service. They include the delivery consistency of advertising mail, the needs of small business mailers, the electronic tracking of containers, service issues for publications, and state-of-the-art payment and manifesting systems.

This past year, our employees proved once again that quality service and financial success go hand-in-hand. We had expected to end the fiscal year with a modest surplus of \$55 million. As the year progressed, we also found that revenues were below budget.

The employees of the Postal Service responded, driving down costs without impacting service quality. Mail volume increased more than 3 percent, more than doubling last year's growth rate. And we achieved historic reductions in accidents and injuries, not only creating a safer workplace for our employees, but saving hundreds of millions of dollars for our customers in the process.

The auditors are still reviewing our finances, but we expect to end the year with a net income of \$1.2 billion. That will give us 3 straight years with a surplus of \$1 billion or more—an unprecedented achievement.

These financial gains have done several important things for us. First, they have helped us substantially restore the financial health of the Postal Service. In its first 23 years as a self-supporting entity, this organization posted accumulated losses of \$9 billion. In the last 3 years, we have erased half of that amount.

Second, they have allowed us to make historic investments to improve service quality and increase the efficiency of our operations. In both 1996 and 1997, the Postal Service committed \$3 billion in capital investments for the first time ever. Over the next 5 years,

we are planning to invest \$17 billion, our largest amount ever. This includes \$5.9 billion for new technologies, \$6.4 billion for new facilities and delivery vehicles, and \$4.7 billion for service and revenue-building initiatives.

One of our most significant investments has been a \$1.7 billion contract awarded earlier this year. It will create separate processing facilities and dedicated air transportation for Priority Mail packages traveling along the East Coast. We expect this effort to pay big dividends to customers, helping us drive service scores for this growth product to historic levels.

Third, these financial gains have made it possible to put forward the lowest rate request in modern times. Our proposal to add a penny to the price of a First-Class stamp and increase overall rates by just 4.5 percent continues our trend of keeping price changes well below inflation. The new rates will not take effect until at least June 1998, giving the Nation 3½ years of stable postage rates, the second longest period in three decades.

There is one more important highlight from the year that I want to mention. For 16 days in August, the Postal Service's ability to deliver was put to the test. When the Nation's largest parcel shipper went on strike, many of its customers came to us. The result was a virtual "Christmas in August"—20 percent more parcels and more than double the usual amount of expedited packages.

Our employees came through. They handled the extra mail effectively, coordinated operations with new and existing customers, and even made deliveries on Sundays. Many customers were pleasantly surprised by our performance and our attitude of service during the strike. Some were so impressed that they have continued giving us their business.

As I told our employees after the strike, I have never witnessed a more superior level of dedication and commitment during my entire career in business and government. I am proud of the way employees have taken our performance up a notch these past 3 years. Even more satisfying and encouraging to me is the new, cohesive approach we are taking to managing the Postal Service that is helping us deliver these results. It is called CustomerPerfect.

CustomerPerfect is based on the most effective principles of performance excellence around—the Baldrige criteria. It is instilling a sense of focus and discipline in how we go about serving the Nation. CustomerPerfect is helping to integrate the many different aspects of our operations—planning, goal-setting, budgeting, training, compensation, product innovation, and the continuous improvement processes from the board room to plants to the most distant post offices. It is giving us clear targets for improvements each year and putting us firmly on the path to excellence.

Over the past 3 years, we have used the CustomerPerfect process to listen to one of our most important voices—that of our employees. We have made significant strides in the key target areas of training and safety. In the coming months, we will be expanding this focus to address workplace relationships on a broader scale. At the same time, we are sitting down with representatives of our unions and management associations to explore innovative ways to resolve disputes and address the issues that divide us.

Clearly, we have some work to do, but I am confident that we are headed in the right direction. Tomorrow I will speak at length on workplace relationships with Chairman John McHugh and his House Oversight Subcommittee.

By now, each of you should also have received a copy of our new 5-year Strategic Plan. It provides more detailed information on the CustomerPerfect approach, the challenging goals we have set for ourselves, and the strategies that will enable us to succeed in the complex and fast-changing communications environment.

As the plan indicates, several external challenges will affect our success in the coming years. The most significant is competition. Today, dozens of competitors are siphoning mail out of our system. Other delivery firms provide high-quality, end-to-end service in specialized markets. Private mailing centers serve as alternative post offices. New technologies allow individuals and businesses to send messages and money electronically, bypassing hard copy mail.

These growing alternatives are challenging our ability to realize the economies of scale that are so vital to improving productivity and holding postage rates down. Worse yet, they are calling into question the very future of universal mail service, a network that includes thousands of small-town post offices and rural delivery routes that no private business would want to operate.

It may seem like we are crying "Wolf" when you consider that mail volumes have risen 48 of the last 50 years. But some of the our most profitable products are now at risk. First-Class Mail—nearly half of our entire revenue base—is increasingly vulnerable to electronic diversion. That is especially true in the area of bills, payments and statements, where one-quarter of our business may be up-for-grabs if—and probably—when PC banking and bill-paying takes firm hold. As the speed and security of the Internet is improved, the Postal Service and many other forms of mass communication may also see a sizeable hunk of their advertising revenues go on-line.

We cannot predict with any great certainty where the communications marketplace will go or how fast. But we do know this. Even the slightest deviation could have a disastrous effect on the Postal Service. At today's levels, a 5 percent drop in postal revenue would amount to \$3 billion. Just a 2 percent decrease would represent more than a \$1 billion decline in revenue. With our ever-expanding network of deliveries and our massive infrastructure, it is difficult for us to shed large amounts of costs quickly. And that makes us vulnerable to dramatic shifts in the communications marketplace.

Given this scenario, it is imperative that we manage our costs aggressively. We are now exploring some innovative approaches. They include process management, performance-based pay, strategic alliances with the private sector, and sophisticated technologies like robotics and a highly automated plant of the future.

We are also getting much more serious about designing a modern-day lineup of products and services. With the growing array of communications choices, the Postal Service is only going to be as viable as its products. They must be able to stand their ground in the marketplace, serving as valuable tools for personal and professional success.

That is why the Postal Service is putting greater focus today on finding new markets and new ways to meet emerging needs. We are working with our customers to build on our current range of products. For example, we are exploring services that blend hard copy and electronics. We are adding product features, like delivery confirmation, that customers want, and we are working to leverage our existing retail network like many businesses do.

These efforts are not only helping us better serve our customers, they are giving us additional revenues that offset rising costs and help us keep postage rates low.

I also believe that it is important for the Postal Service to have the right management tools to get the job done for the 21st century. The time is ripe for postal reform. Our legislative framework is more than a quarter-century old. It is clearly out of sync with the fast-paced communications marketplace and modern-day needs of our customers. Key members of the mailing community support reform. This includes the CEOs and executives of some of the Nation's most prominent businesses and members of a Blue Ribbon Committee who recently gave us their recommendations on the future of the Postal Service. We have an historic opportunity before us. Together, I hope that we will seize it.

Mr. Chairman, I appreciate your leadership in this area. You have taken an important, prudent step in this direction by introducing the Postal Financing Reform Act, S. 1296, which would give the Postal Service greater flexibility in banking, borrowing and investing.

However, we are disappointed at the turn it has taken. The concepts in this bill are not new. They have been debated for the better part of a decade and were included in postal reform legislation introduced last year in the House that has been widely disseminated and discussed.

Now, competitors and special interest groups have raised issues that go far beyond the intent of the legislation. Even though you addressed their basic concerns by revising the bill, their complaints have persisted. Their objections are unjustified. As you know, the purpose of this legislation is to give the Postal Service greater speed, flexibility and innovation in meeting its financial needs. It would allow us to deposit operating funds in Federal Reserve or commercial banks and to borrow from capital markets. At the same time, this bill would strengthen market accountability. It would limit our investments in the open market to government-guaranteed securities, while maintaining the requirement that all other investments be approved by the Secretary of the Treasury.

I do not understand why competitors object. The bill would have no effect on their businesses. But it could save postal customers millions of dollars each year—money they will not have to pay in the form of higher postage rates.

The only special interest this bill serves is the pocketbooks of the American people. We hope that you will continue to pursue this legislation in the coming months and that all who have a sincere interest in a healthy Postal Service will step forward to support your actions.

Our competitors' efforts to block this bill are yet another attempt on their part to derail our drive to modernize the Postal Service.

They are now opposing virtually everything we do—every new service or legislative change that would make us more effective and responsive to the American people. When we move forward an inch, they want to push us back a mile.

I understand that those who have built their businesses by taking away our business may not want to see a strong, effective Postal Service. But our customers do. They want us to do everything we can to improve service and hold down prices. Most of all, they want us to preserve our national network of mail delivery. They recognize, as we do, that no other organization or technology today can satisfy this need, and that universal mail service brings benefits to our Nation that no balance sheet can measure.

The Postal Service will continue to press forward. Our commitment to delivering superior levels of service and fulfilling our historic mandate of universal mail delivery, at uniform prices, will not waver.

Our seriousness is shown in the way we are transforming this organization using the Baldrige principles of business excellence. And the historic results we are achieving are proof that we are on the right path. Many challenges await us in the 21st Century, but I have great faith that together, the employees of the Postal Service, our customers, and this Congress can ensure the continuing viability of the mail and protect the great legacy of mail delivery to every home and business in America.

Thank you, Mr. Chairman. That concludes my remarks.

Senator COCHRAN. Thank you, Mr. Postmaster General.

I appreciate the complete review of many of the issues that face the Postal Service and the challenges that you have to keep postal rates reasonably priced and service at a high quality, and I also appreciate very much your comments about the recent legislation which I introduced to try to help control those costs and make it possible to continue to provide higher quality service at reasonable rates by cutting down the cost of borrowing and relieving the Postal Service of some of the expensive burdens that come with having to look to the Treasury Department whenever you want to obtain securities or do any banking activity at all.

As it was initially explained to me, there are some Government-Sponsored Enterprises (GSEs), such as Fannie Mae and Freddie Mac, the Tennessee Valley Authority, which you once headed up, which have access to private market entities for investment and banking. Is it your understanding that the request that was made for legislation of this kind is based primarily on the experiences of those GSEs, and what would be the dangers to the Treasury or to the general public if the Postal Service were given this new authority?

Mr. RUNYON. Well, I believe you are right that those agencies you have named do have that authority today, and I am not aware of any real problems that that has caused, but it has, in most cases, reduced the cost of that service. I am not aware of any dangers to the American public or to the Congress of the United States that would be presented if we had that opportunity.

Senator COCHRAN. There was some indication that the Postal Service might intend to use this new investing authority to purchase controlling shares of some of its competitors. Would that be

something that would be permitted under this law as it has been amended?

Mr. RUNYON. No, it would not be permitted in the law as it has been amended. We would have no intention of acquiring our competitors, as we said, but the law as it is now written says that the Treasury has to approve purchase of interest in a company before we do it.

Senator COCHRAN. There was also some question about how much money you would actually go into the market and borrow. Would the Postal Service be borrowing large sums of money each year under this new authority? Could you give us an idea of what your expectations would be as to what the volume of borrowing would be?

Mr. RUNYON. I could give you for the record—I do not have it with me right now—what we think our borrowing will be for the next 5 years, but Congress had put a borrowing limit on the U.S. Postal Service, so our debt cannot go above \$15 billion—

Mr. COUGHLIN. A total of \$15 billion.

Mr. RUNYON. A total of \$15 billion is the limit that Congress has set, so we could not borrow more than that, and it would not be our intention at any rate to do that.

Senator COCHRAN. The legislation, as amended, does not contain any lifting of that limitation or any modification of that limitation at all.

Mr. RUNYON. No, sir, it does not address it at all to my knowledge.

Senator COCHRAN. Let me ask you this. There has been a great deal of attention paid to the fact that you have turned around the Postal Service from an entity that was losing money every year, year in and year out. Even though it was designed to be self-supporting, there were many difficulties in achieving that goal. Now, however, in the last 3 years, according to your testimony and the information we have received here in this Committee, the Postal Service has made over \$1 billion in profit for each of the last 3 years. Why, then, is it necessary to ask for a postal rate increase after you have had that kind of economic success?

Mr. RUNYON. Well, even if you consider all of that economic success that we have had—and by the way, I might go back and give you a little bit of history about how postal rates used to be set. It used to be that we had to lose about \$2 billion. Then we would go in for a rate increase, and we would get the rate increase; the first year, we would make money, the second year, we would break even, and the third year, we would lose money and go back to raise rates again. We tried to reverse that, and as you recall, in 1994, we had a rate increase of 10.3 percent, which was less than the price of inflation. That was after 4 years without a rate increase. Now it has been 3½ years, and we are asking for 4½ percent, which is less than half the rate of inflation. So we have really changed the way we operate.

Now, at the time we filed for that rate increase, it was our notion that we would probably, in the year just past, have somewhere between \$600 and \$700 million of profit, or surplus. In fact, we have \$1.2 billion, which is about \$600 million more. And the fact is that even with that increase if we do it in June, we would still lose \$228

million, based on our budget numbers for this year. With no rate increase, we would lose over \$2 billion in the following year, 1999.

So we feel that the increase is necessary, and we think that by going now with one penny is the right thing to do. Because if we were to wait for another year and make our filing based on another year of economic progressions, it would be something like a 3-cent increase that we would have to make in the following year. And we are trying not to do that, because people who use the mail do not like to be hit with 10, 15, or 20 percent, every 3 years, because it is very hard to calculate your business.

What people would like to see is a small increase if there has to be one, and have it more often than to come along every third year with a big increase.

So I think the answer to your question is, even with the increase, we would probably lose a little money next year; without the increase, we would lose a lot of money next year and more the following year.

Senator COCHRAN. One way that you have increased revenues is to offer new services and new products to those who use the Postal Service and buy those services and products. That has brought with it, though, some criticism from others in the private sector who operate businesses similar to those that you are now operating in effect in the Postal Service—selling greeting cards, selling other services—there is a long list. What is your answer to those who say that you have a great advantage because you do not have to pay taxes, you do not have to pay rent, in effect, to private building owners?

You have a lot of different benefits because you are a government entity, even though you are operating as a business—trying to break even or make a profit. What is your answer to that? Are you unfairly using these characteristics to compete unfairly with the private businesses?

Mr. RUNYON. We do not think we are. First, when you talk about rent, a lot of the buildings that we have are leased, not owned, by the Postal Service. I do not know the volume of that—maybe Mike would know that better—but the fact is we do lease a lot of those buildings.

Second, a lot of the products that we are offering now are things that our customers want. For example, we started a service on the West Coast called “Pack and Send,” at about 270 post offices. As you may know, we have carried packing supplies in post offices for a long time—boxes, wrapping paper, tape, things of that nature. People come in and say they forgot to wrap a package, and so they buy these things. So we ask, would you like us to wrap the package, and they say yes. So we put up a service called “Pack and Send” on the West Coast, and it is a very popular product.

Now, people who are also wrapping packages did not think that was such a neat idea, and they went to the Postal Rate Commission, which said, well, you started doing this, and this is something that is going to get mailed, and therefore, we should have set the rates. They did not say we should not have done it; they just said we should set the rates. So at that time, we dropped that service, and now we have filed with the Postal Rate Commission a case as

to how much our rates should be for this "Pack and Send," because it is something our customers want.

So there are things like that that our customers are really actively seeking, and we are trying to supply their needs. Service is what we supply. We are a service business, and we provide service to the citizens of the United States.

Senator COCHRAN. Mr. Deputy?

Mr. COUGHLIN. Could I add, Mr. Chairman, that the products you talked about are, in almost all cases, directly related to the basic business we perform as additional services or products made available to customers, services they have asked for. It is related to the stamp art that we own.

But another point relates to the benefits that we have, that others have alleged we have here. There are also significant obligations that go along with those benefits that are conferred on us—the most important of which is the obligation to provide universal service. We maintain a widespread network of facilities around the country—totalling almost 40,000—facilities that would not be there if we were a straightforward, tax-paying private entity.

So it is important to keep those two things in balance, the benefits and the obligations.

Senator COCHRAN. Senator Domenici.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Thank you, Mr. Chairman.

I am learning all the time about the wonderful jurisdiction of this little Subcommittee. I have been getting along with Mr. Runyon famously; now I will not even be able to categorize how well I am going to be getting along with him—isn't that right, Mr. Runyon? We get along pretty well. Now, think about this—I am on this Subcommittee, and that means we can get along even better; right?

Mr. RUNYON. I would hope so. [Laughter.]

Senator DOMENICI. I came today on a parochial issue, and I will raise it shortly, but I will let the Chairman do his second line of questioning, and then I will raise on the 400th anniversary of Oñate's arrival in America and why we cannot do something about that.

But I would like to ask you just a couple questions about service. First of all, I think that we have all learned that things are changing very fast, and the service industries here and around the world are just changing and growing, and innovation rampant. But I think that we have got to every now and then step back and ask what is our Postal Service for. And I get kind of worried when I hear people say they want to take bits and pieces of your business, because I have not heard any of them offer to take all the rural post offices in New Mexico and service them, and I have not heard them offer to serve all the post offices in rural Mississippi.

Maybe I have not been listening, but I have been hearing that people want to take all the business between some major cities, some huge companies, and obviously, if we let that disappear, then not only will we have rural rates that are outrageous for our rural people, but we will have to subsidize you at an enormous rate.

So I am interested in permitting you to sufficiently serve the general population in the area of postal delivery, delivery of mes-

sages, in whatever mode fits the changing times, provided that is necessary to continue the universal delivery that we have chartered you with doing.

I saw you 1 day and complimented you on the advertisement that you had on national television with reference to the new product to compete with rapid delivery—what was it—overnight?

Mr. RUNYON. Priority Mail.

Senator DOMENICI. Priority Mail. I looked at it, and I said, gee, the post office is doing something pretty neat; they are about as good as any private sector company in advertising this service.

Did it work?

Mr. RUNYON. Yes, sir, it is working. Our Priority Mail is up 13 to 15 percent this year, and it is working.

I would just like to comment—you said something about letters. A lot of that Priority Mail is parcels.

Senator DOMENICI. Oh, I understand.

Mr. RUNYON. You included parcels in that statement, I assume.

Senator DOMENICI. I should not have said just messages—messages and parcels.

Mr. RUNYON. Yes.

Senator DOMENICI. But is anybody saying you should not be running that kind of advertisement with respect to this priority service?

Mr. RUNYON. There is somebody who is unhappy with one of our ads—is that the one that they are unhappy with?

Mr. COUGHLIN. Some of our competitors have filed complaints—one has even sued us—about the content of the advertising. It has been before an advertising review board, and they found the ads to be acceptable. In addition, before they were ever shown, they were vetted through the internal television advertising system, our own attorneys and their attorneys as well.

Senator DOMENICI. Well, I do not know what your competitors' complaints are, but I repeat that if you are going to stay in the business that we have charged you with being in, and there can be other businesses competing—and there probably are more today than there ever have been; you stated that in your statement—clearly, you have got to do what must be done to stay alive and deliver the universal delivery which we ask you to do for all of our people.

Let me ask you this. Ten years ago—and I have been here longer than that—but 10 years ago, we were receiving huge amounts of mail in our offices complaining about the service of the post office. Now, I have not checked in the last week, but I have checked in the last year, and we are not getting very many complaints. Does that mean people have just stopped complaining to me, or is the service better?

Mr. RUNYON. It means the service is better. We have statistics that are taken by outside consultants who tell us the service is better. For overnight service—right now, we are shooting for an on-time overnight goal of 92 percent. For the past month, we have been at almost 93 percent. So we are improving that.

We are not doing as well as we should be doing on 2- and 3-day service standards. We need to work on that, and another one of our prime objectives this year is to get that up from where it is.

Senator DOMENICI. Now, Mr. Runyon, it seems to me that this in sustained period of recovery that we are having in the United States, people are really trying to find out how are we doing that with such low inflation, and what is really the prime mover; and I guess, depending upon whom you talk to, there are three or four different reasons. But I think one that is there in everybody's assessment is the increased productivity of the American service and manufacturing industry, which is based upon a decade or so of new technology, new equipment and innovation, and it has finally caught on, and it is producing per unit of man or woman's time more goods and services of value than they were producing 10 years ago, and much more than 20 years ago.

Now, I would assume if you are going to stay in business and not be up here with very large subsidies and having competitors who are really up here saying, "We ought to take it over because we can do it a lot better," that you have to have productivity increases; is that correct?

Mr. RUNYON. Yes, sir, that is correct.

Senator DOMENICI. Do you have productivity increases that you could share with the Committee?

Mr. RUNYON. Yes, sir. We had a productivity increase last year of roughly one percent, and we have in our budget this year I think another one percent in productivity. So we are making progress. We were not doing very well a few years back, but we are making progress in productivity now.

I might add that a lot of the automation that we have been buying over the years is now beginning to be installed, put in place, and is starting to yield the productivity that we have been trying to get.

I mentioned in my opening remarks that we have increased our capital expenditure plan to \$17 billion. It was \$14 billion the previous 5 years, but we have revised that to \$17 billion for the next 5 years. A lot of the reason for that was for the automation that is available, that we know works, that we can buy and put in place and improve our productivity. So, yes sir, we are doing that, and it is paying off.

Senator DOMENICI. Could I ask this to you another way? Generally speaking, if you tried to measure productivity in an industry like yours, you would try to determine how much total service you are presenting to the American people year over year, and then you would try to determine whether you are able to do it with the same manpower, or whether you have to have a lot more manpower. It does not mean you have to lay off people, but as you increase productivity, I assume you are also bucking up against more service needed as postal delivery is going up.

Mr. RUNYON. Right.

Senator DOMENICI. What is the status of your employment in terms of how many people you have working full-time at things that really effectuate the delivery of packages and messages?

Mr. RUNYON. I do not have the exact numbers with me—I will supply them for the record.

Senator DOMENICI. Will you, please?

Mr. RUNYON. We have more people today than we did 5 years ago, but the fact is our volume has increased by about 11 percent,

and the number of places that we deliver to has increased several percentage points. So we have to provide the necessary people to do that.

However, had we provided and hired people just to take care of those increases, we would have had to hire twice as many people as we did. So the productivity is showing itself there, even though our total numbers today are higher than they were. What I am saying is they would be about 60,000 people higher today if we had not had productivity plans in place.

Senator DOMENICI. OK. So what you are saying is that you could chart for us if we asked over the last 5 years and your projections for the next 5, how much service increased each year and how many employees increased, and you would be able to say proportionately, based on prior years, we have only had to hire half as many people as we would have but for innovation?

Mr. RUNYON. Yes, sir. I have those numbers. I should have brought them with me, but I do not have them with me.

Senator DOMENICI. Could you give us for the record, please?

Mr. RUNYON. Yes, sir.

Senator DOMENICI. In due course, whenever you want them, Mr. Chairman—a week, 2 weeks, whatever is your wish.

Senator COCHRAN. In a timely fashion, I think is what we would ask for.

Senator DOMENICI. Thank you.

[Information follows:]

INSERT RESPONDING TO SENATOR DOMENICI'S REQUEST FOR WORKLOAD AND STAFFING INFORMATION

Following is a chart of annual employee complement and growth in mail volume and delivery points for the last five fiscal years:

Year	Complement	Mail Volume	Delivery Points
1997	824,578	4.1%	1.3%
1996	818,728	1.5%	1.5%
1995	811,320	1.5%	1.5%
1994	791,218	4.0%	1.4%
1993	758,734	2.9%	1.3%

Following is a chart of projected employee complement and growth in mail volume and delivery points for the next five years:

Year	Complement	Mail Volume	Delivery Points
1998	829,500	2.0%	1.4%
1999	837,700	2.0%	1.4%
2000	846,000	2.0%	1.4%
2001	854,300	2.0%	1.4%
2002	862,800	2.0%	1.4%

Complement does not include Postmaster Relief, Rural Carrier Substitutes, or nonbargaining temporaries.

Itemized below are major changes in equivalent complement for workload and programs since restructuring in July 1992. The list identifies complement needed because of increased workload in mail volume, delivery points, and other miscellaneous workload. Major program changes are for Remote Encoding sites, our emphasis on better customer service through increased window service, and better utilization of rehabilitated Postal Service employees who were on the Department of Labor's compensation rolls due to injuries. Finally, the reductions from the 1992 restructuring and the net savings from operational programs between 1992 and 1997 are identified.

MAJOR CHANGES SINCE FY 1992

	Employee Percent Change	Equivalents
Workload:		
Mail Volume Workload	10.8%	37,700
Delivery Points Workload	7.7%	32,600
Other Workload	9.4%	5,000
Programs:		
Remote Encoding Sites		25,235
Customer Focus-Retail		4,000
Rehabilitation Programs		6,231
Overhead Reduction		(22,691)
Operations Programs		(35,679)

Senator DOMENICI. Mr. Chairman, I am going to yield. I have a couple of parochial questions at the end, but I would like you to go ahead.

Senator COCHRAN. Thank you, Senator.
Senator Cleland.

OPENING STATEMENT OF SENATOR CLELAND

Senator CLELAND. Thank you, Mr. Chairman. It is good to be with you today, and my dear friend, Senator Domenici. I have to agree with him on so many points, and certainly, I am learning about the dimensions of this Committee as well—International Security, Proliferation and Federal Services. I came in here 1 day thinking it was an oversight hearing on a government agency and found out it was dealing with arms from China to Iran and nuclear proliferation, so that was a shock.

But I will tell you, when you try to close down a Postal Service operation in my home town, that is nuclear proliferation. [Laughter.]

Senator CLELAND. So we are covering the waterfront here.

I want to thank you and your wonderful staff for being responsive to some of the parochial questions I did have up front. I am very pleased with the Postal Service's recent decision to build a new post office in an emerging and evolving county, Gwinnett County, outside Atlanta, to serve the Snellville-Centerville area in my home State of Georgia. This proposal will address many of the needs of a lot of those new residents who want to have their mailing address and post office changed to a more convenient location. I thank you and your staff for working that out.

I especially want to thank you for working out the idea of keeping the Postal Service operation in my home town of Lithonia alive and well, and not only to keep it, but to expand it and almost double it. That means an awful lot to me and to the people who are served thereby. I understand that the contract is virtually let and that that expansion will be completed by the end of 1998. So thank you very, very much.

Mr. Robert Sheehan, the Atlanta District Manager of the U.S. Postal Service, has been very cooperative in this regard. I have just a small technical question here. Concerning the proposal for a new Centerville-Snellville Postal Service office, while keeping the Lithonia office where it is and actually expanding it. What is the current thinking, if you know it—would that also involve keeping the existing Snellville Post Office, or would it be closed? Has there been any real decision on that at this point?

Mr. RUNYON. I am not aware. I would be glad to supply that to you for the record, though.

Senator CLELAND. All right. Thank you very much.
[Information follows:]

INSERT RESPONDING TO SENATOR CLELAND'S QUESTION
ABOUT THE SNELLVILLE POST OFFICE

The construction of a new Centerville Branch postal facility will allow us to relocate delivery routes in the 30039 and 30058 ZIP Code areas under one roof. These are currently housed in the Snellville and Lithonia Post Offices. The relocation of Snellville carrier operations to a new building will not affect retail operations at the existing Snellville postal facility.

Senator CLELAND. One question about S. 1296, the Postal Financing Reform Act, introduced by my dear friend and colleague, Senator Cochran. As you know, Senator Cochran has modified some of the language of the bill in an effort to address some of the concerns that have been raised. The revision strikes the language that would have allowed the Postal Service to invest excess funds in the open market provided that "such investment is closely related to Postal Service operations as determined by the Board of Governors."

This change addresses two of my concerns. First, it allays fears that the Postal Service would buy out its competitors. Second, the new language limits USPS investments in the open market to government-guaranteed securities while maintaining the requirement in current law that all the other investments be approved by the Secretary of the Treasury.

I am among the number of people who had concerns with the bill's original language, which gave the Postal Service a broad spectrum for portfolio investments. I am reminded of what happened to Orange County, California just a few years ago, where the treasurer of Orange County pursued a risky investment strategy in order to maximize investment returns. It was an investment policy based on the county's forecast of what would happen to interest rates. The rest is history—contrary to the county's forecast, interest rates began to rise, the market turned against them, and Orange County was forced into bankruptcy. They lost their shirts. So I am pleased that the revised section provides for third party approval in those cases where the Postal Service wants to invest in securities which are not government-guaranteed.

I do, however, have a concern about the borrowing authority which S. 1296 gives the Postal Service. First let me say, Mr. Runyon, that I understand the Postal Service must offer its debt to Treasury for first refusal before it can go elsewhere for financing, and I understand the bind this can put you in when you must wait up to 15 days to find out if the Treasury has approved your financing request. I know that time often means money; in this case, it can mean lots of money, lots of money lost. But I also have a concern with this section. The Treasury Department states that about 99 percent of the time, borrowing from Treasury is actually less expensive for the Postal Service than borrowing from the private markets. Just playing devil's advocate here, how would you respond and address the repercussions that would arise if it were found that the Postal Service lost millions of taxpayer dollars be-

cause of borrowing from the private market, which is often at a higher interest rate than you could have gotten from Treasury? Are there any comments you would like to make on that?

Mr. RUNYON. I think that the history of government agencies that have that ability today indicates that they do very well in the market; they are not losing money. If at any point in time, you say can you borrow it cheaper, the answer is yes, you can borrow it cheaper from Treasury because they will give it to you for one-eighth over prime—is that right, Mike?

Mr. COUGHLIN. One-eighth over Treasury's cost of borrowing.

Mr. RUNYON. Yes, one-eighth over the average. They will do that, but the problem is—there are other important factors. One is the 15 days you are talking about. It may be that at the end of 15 days, the market is not in such good shape, and one-eighth over Treasury's rate is not so good because Treasury rates are too high, and you would like to wait for 3 days or wait until the market drops. If you wait, then you do better than what you were going to do at Treasury. So that is one important point.

Senator CLELAND. So in terms of borrowing, not particularly in terms of investment—and I think we have got that pretty much straightened out—

Mr. RUNYON. Right.

Senator CLELAND [continuing]. But in terms of borrowing, you would like to have that capability.

Mr. RUNYON. Right. The other thing is that when we first came to the Postal Service, we did not have the ability to have any kind of provisions other than just borrowing at fixed rates and without call features on our debt. Now Treasury has changed—and they are to be commended for changing—to allow us to call debt after a certain number of years. Now they have changed that for any government borrower so they can have call provisions. And call provisions are very important. If you borrow for 30 years, and you cannot pay it back for 30 years without incurring a penalty, that is not a good way to do it. And that is the way it used to be until just a few years ago, when we said to Treasury, look, we really need to have this, and they gave it to us.

So there are those kinds of things that you need to talk about, and it makes it much better for us in being able to deal with people who deal with this on the hour. Treasury really is not into the lending business.

Mr. COUGHLIN. If I might add on that, on the issue of call features that Mr. Runyon talked about, call features in the public markets have been available for a number of years. They had not been available from the Treasury Department to any of its clients up to that point in 1992, and the Postal Service, after some fairly tough negotiations with the Treasury Department at that time, finally succeeded with a lot of help from Mr. Runyon to get the Treasury Department to agree to call provisions on our debt.

The particular issuance of debt at that time and those call provisions—which I think we are about to call the last one—has saved us a significant amount of money on our interest expense.

The point here is that one of the things that is missing because our banker today is the Treasury, which is really not set up to service a customer like us. They do everything else well, but they

are just not set up to do that. As a result, we forego the opportunity to get timely access to a lot of the innovations going on in the public markets that can really have a big impact on how we effectively finance this organization.

Senator CLELAND. And in terms of borrowing, you would like that access?

Mr. COUGHLIN. Yes, very much so.

Senator CLELAND. Thank you.

Just a couple of quick questions, Mr. Chairman, concerning the Postal Service's decision to centralize the procurement of uniforms. I understand that under the current system, your employees buy their uniforms from a network of some 700 retail vendors who establish their own pricing. Under the proposed system as I understand it, uniform purchasing would be limited to a relatively small number of businesses, and contracts would be awarded through a competitive bidding process that you hope will achieve cost savings.

I understand that the postal unions have signed off on the proposed uniform procurement program; however, I have heard concerns that this new system may leave thousands of hardworking Americans without jobs. Is there any reason why the Postal Service cannot sit down with the affected parties, the representatives from industry and concerned unions, to work out some solutions before sending out the bid, just to ensure that the uniform program will not destroy some small businesses and good jobs?

For instance, the Postal Service has stated that it will not allow subcontracted work to be performed in so-called sweatshops; however, I have been told that one of the companies that wants to bid for centralized procurement of uniforms, Lyon Apparel in Kentucky, has been accused of paying its workers so little wages that many of its long-term employees must turn to welfare, food stamps and Medicaid to care for their families.

I would just like you to comment on the allegation. We do not want to get into the business of encouraging sweatshops here just to provide uniforms.

Mr. RUNYON. I would like to comment, and then I will ask Mr. Coughlin to comment. First, we are probably the only large user of uniforms that does not do the purchasing this way. All the other government agencies, large companies like General Motors and Ford, that use uniforms do it this way. It is an economical way of doing it. It is a better way of controlling the quality. When you have several hundred manufacturers out there, it is hard to control the quality—it is hard to control sizes and all that kind of thing.

We do have, and we have recently put out a new communication, to the effect that uniforms will be made of American material and by American labor. So we have got that all covered. And if you are a supplier to the government, you have got to meet certain laws, and these people that you are talking about I think would have a little problem complying with the laws they would have to meet in order to supply our contract.

I think Mike has some numbers that would be interesting to you.

Mr. COUGHLIN. As of about a year ago at this time, which is the latest data we have, we had a little over 900 licensees to either manufacture or vend these postal uniforms for our employees. Interestingly enough, over half of those do less than \$5,000 a year

business on this program. This is a \$75 million-a-year program. A little over 90 percent of that business is done by about one-fifth of the licensees.

As we have looked at it—and our purposes in the program are, first of all, to try to lower our cost, to improve the quality of the uniforms we are providing our employees, and to comply with a collective bargaining agreement. This is a provision of the collective bargaining agreement with three of our individual unions that have agreed across the table with us that this is an issue that needs to be addressed.

We have tried to take into account some of the concerns that have been expressed through the Congress, both in the Senate and the House, through the provisions that Mr. Runyon just described. We have tried first of all to preclude any possibility of sweatshop activity here through the provisions of the contract, to go to a virtual 100 percent domestic source requirement. So we cannot go overseas for it, and we are going to try to structure the request for proposal so that it is possible that we have more than one vendor, that we have perhaps as many as two or three or four.

Unfortunately, the greater the number of vendors, the more you tend to affect negatively the benefits of this effort. But we have agreed to try to do that, and it will be in our Request for Proposals.

Senator CLELAND. Thank you very much, Mr. Coughlin, Mr. Runyon. Nice to see you.

Thank you very much, Mr. Chairman.

Senator COCHRAN. Thank you, Senator Cleland, for your contribution to the hearing.

Senator Levin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you, Mr. Chairman. Let me add my welcome to our witnesses.

About 3 years ago, Mr. Runyon, you appeared at a hearing here to address and respond to a 1994 GAO report that described the relationship between the Postal Service and its employees, and that report of the General Accounting Office described numerous problems that existed in the Postal Service's relations with its employees and detailed a general climate of mistrust and hostility.

During that hearing, as a matter of fact, you agreed that too often there were combative relationships between management and employees in the Postal Service and pledged to address those issues.

Last month, the General Accounting Office issued a follow-up report, reviewing the Postal Service's efforts to improve both overall performance at the Postal Service, but also postal employees' working conditions. And with respect to postal performance, the report stated that in the past few years, the Postal Service has made some significant improvements in its overall financial performance, in mail delivery, noting both what your net income was for 1995 and 1996, your on-time delivery record which was at an all-time high of, I believe, 89 percent for fiscal year 1996 for overnight First-Class Mail. So you really made some significant performance improvements, and you and your staff and all the employees of the Postal Service are entitled to a lot of credit for those.

But in the area of labor-management relations, the GAO report indicates that some problems continue to plague the Postal Service, and specifically, the report said that little progress had been made in improving the persistent labor-management relations problems that have resulted from autocratic management styles or poor management attitudes and programs. I noted the number of grievances which had been filed and that had not been settled in the first two steps of the grievance procedures, that they had increased from 65,000 in 1994 to about 90,000 in 1996, and that there also was a significant increase in the number of grievances that await arbitration. Also, it was noted that the labor-management summit which you had hoped to convene at a meeting here in 1994 has not been convened.

So I would be interested in asking you a number of questions in that area. First, let us talk about the summit issue. I gather that it has not been convened, and maybe you can tell us why that is.

Mr. RUNYON. I am very pleased to report that on the 29th of last month, the summit was convened——

Senator LEVIN. Oh, good.

Mr. RUNYON [continuing]. And even prior to that, we had been meeting with individual unions along with the Federal Mediation Service. We have reached agreement with the APWU and with the NALC on methods to look at these grievances that you are talking about, the 90,000 you mentioned, that are there. I know that in one particular instance, we have reduced a group by 12,000. So we are doing very well at that.

We are looking at the process by which we do grievances. We need to go back and change the process, because we can all get together, look at the grievances that are there and resolve them, but that does not help. That is like pulling the plug on the bathtub, and it all drains out. But if you put the plug back in, you have got a problem.

What we are looking at now is the process of how we do grievances. My personal reaction is that we should get that down as low as possible so that we have accountability at the lowest level possible to resolve those grievances, and stop having them come all the way up. That makes more people understand that, really, they have the responsibility to settle it, rather than pass it on. So that is one thing that we are doing, and I think we are working very well with those two unions to resolve it.

We have also reached an agreement with the Letter Carriers Union that we are going to look at the way the letter carriers deliver the mail. The way the system is set up, it is sort of adversarially designed. A letter carrier and his supervisor decide each day how many hours it takes to do so much mail, and that is on their minds, and if it does not go one way or the other, there is a grievance about that. So we are looking at how we do that, and I might say this is the most encouraging news I have had: We are sitting down, working together, to try to figure out how to resolve the cause of the grievances. If we can resolve the causes, then the grievances are not going to be there. That is another thing that we have done.

We also agreed at the summit that we would set up another committee to discuss union-management issues, so that unions can un-

derstand more about management issues. And also so that management can understand more about union issues. We can get all of those things out on the table and talk about them, and how we can resolve them.

So I think that what has happened from the summit is really good news. We have had it, and we have agreed that we will meet every quarter—the whole group: And everybody has bought into following up on what we are doing. As I said, we have a Committee on the process of how we handle grievances; we have a committee set up to handle this union-management business relationship; and we have set up another group to talk about the strategies of the Postal Service. It is very important not only to the management but to the employees what our strategies are. It is their jobs that we are talking about. So those are three different working groups that we have set up as a result of this summit.

So I think we are making progress. We are going to be going to another Subcommittee hearing tomorrow, John McHugh's oversight subcommittee, focusing only on that subject. He will be having the unions, the Federal Mediation Council, GAO, ourselves, and management associations all testifying at that hearing.

Senator LEVIN. That union-management working group that is going to address the business relationships, is that what is going to take the place of what you described in 1994 as the regular weekly or biweekly meetings between your district and your plant managers and their counterparts in the unions? It sounds like it really does not address that issue, that it is much more of a lower level. What happened to that plan to have those weekly meetings between your managers and their employee representative counterparts?

Mr. RUNYON. That is working very well in some locations and not well at all in other locations. There again, we do not have a simple formula where we can say, "Go and do it like that."

Senator LEVIN. Are the meetings taking place everywhere?

Mr. RUNYON. Not everywhere, no, sir.

Senator LEVIN. Is there a directive from you to your managers to convene those meetings everywhere?

Mr. RUNYON. No, I do not have a directive that says you will meet every week, no, sir.

Senator LEVIN. Or biweekly?

Mr. COUGHLIN. I might add, Senator, that there is a contractual requirement that we have regular labor-management meetings in certain locations throughout the system, in district offices and plants. Those are going on by contractual requirement.

Senator LEVIN. Can you take a look at the places where they are not taking place and reach a conclusion as to whether they should, and if not, whether a directive would not get that on track and let us know what happens on that?

Mr. COUGHLIN. Sure.

Senator LEVIN. Senator Cleland as I came in was asking you about the purchase of postal uniforms. I had some similar concerns I believe to his, and I wrote you a letter with those concerns, and you gave me a response which really was not specifically responsive. What I would appreciate you doing is going back and looking at my letter and addressing the specifics in the letter. I got a very

general response. If you would do that, I would also appreciate that.

Mr. RUNYON. I would be glad to do that.
[Information follows:]

INSERT RESPONDING TO SEN. LEVIN'S REQUEST FOR INFORMATION REGARDING THE STATUS OF REGULAR LABOR-MANAGEMENT MEETINGS AT FIELD POSTAL INSTALLATIONS

As explained by Mr. Coughlin in response to your inquiry, local labor officials are entitled to participate in regularly scheduled Joint Labor-Management Committee meetings pursuant to a provision in the collective bargaining agreements with our unions. The regularity and frequency of such labor-management meetings are set by agreement at the local level. Because this is a local responsibility, we at the national level do not actively track whether or not such meetings are being held. Therefore, with respect to the information you requested, we are surveying the field to determine the locations where meetings are being held and, if they are not occurring, we will remind them of the responsibility to do so.

Also, as stated in my testimony, we have made progress in our national summits and continue to actively work with the unions at the national level to come to understandings of the shortfalls of the systems we have in place to attempt to reach agreement on how to best fix them. As we told you in the hearing, we are looking to establish more accountability at the local level to ensure that the responsibility for the resolution of grievances stays at that level and is not passed up through the system to others. Better communication between local managers and local union officials is a tool that can help us to achieve this goal.

Once we have compiled the information and taken appropriate follow-up actions, we will advise you of the results.

INSERT RESPONDING TO SENATOR LEVIN'S REQUEST FOR A MORE DETAILED RESPONSE TO HIS LETTER REGARDING THE POSTAL SERVICE'S EMPLOYEE UNIFORM PROGRAM.

November 14 letter to Senator Levin is attached.

UNITED STATES POSTAL SERVICE,
November 14, 1997

HON. CARL LEVIN
U.S. Senate
Washington, DC

DEAR SENATOR LEVIN: This responds to your August 1 letter regarding the Postal Service's proposal to centralize the purchasing of employee uniforms. I regret that our earlier reply did not fully address your concerns.

I should explain that the uniform allowance program is not being abolished. Uniform allowances are employee benefits that have been negotiated through the collective bargaining agreements with our unions. In fact, the Postal Service and its unions have signed memorandums of understanding that call for a centralized system of purchasing and distributing uniforms and work clothes.

Centralizing the purchase of uniforms can provide better and more consistent quality in uniform items, as well as standard pricing features that will benefit uniformed employees. In addition, simplified administrative and purchasing processes can offer savings to the Postal Service and, ultimately, our customers who actually underwrite the costs of our uniform program.

While we recognize that changing the way we provide uniforms to our employees will affect existing retail vendors, our experience has shown that a relatively small number of businesses account for the majority of sales. In 1996, employees obtained authorized uniform items through more than 928 retail vendors. Ninety-three of those vendors—10 percent—accounted for 83 percent of employee purchases, with the top 10 firms accounting for 54 percent of sales. At the other end of the scale, 293 firms, about one-third of the total, did less than \$1,000 in postal sales. Another 180, one-fifth, sold between \$1,000 and \$5,000 worth of postal uniform items.

Very few of our vendors limit their business to postal sales; most sell postal uniforms as a part of a broader retail apparel activity or as part of a business supplying uniforms to other professions and trades, such as public safety and health care workers. Four of the top seven vendors have submitted pre-qualification packages for the first phase of this two-phase initiative.

We expect to implement this program over a period of at least 3 years. This will provide vendors time to adjust to the changes that will result. As the system changes over, contractors will be required to submit plans for buying existing inventories from current vendors to minimize any loss on their investment. In addition, our solicitation will call for pricing proposals that allow for sales persons and/or stores in addition to mail order. Under the current system, most uniform orders are delivered to employees by mail.

The Postal Service presently spends some \$75 million annually on employee uniforms and work clothes. Savings can be achieved both through the simplification of the uniform program's administration, which involves processing more than one-million individual invoices each year, and through the economies of scale made possible by working through a limited number of suppliers. However, until we have published a public solicitation and reviewed the offers it generates, we are unable to provide specific savings we could expect to realize.

In the interim, we believe that commenting on estimated savings would be counterproductive, having the potential to direct bids toward the range of the savings we project rather than reflecting the costs of satisfying the solicitation's requirements. However, if the offers we receive do not provide clear savings and benefits, there is no requirement that we make a contract award.

We believe, however, the experiences of other uniform purchasers support our conclusion that centralization can result in cost savings. When the National Forest Service changed from a vendor system to a contractor system, its savings were 15 percent on a program of less than \$2 million a year. A study of inventory practices in the Canadian government found that when Canada Post went to a contractor system, cost reductions of 25 percent were achieved. The Department of Defense, in comparing a selection of postal uniform items against comparable Air Force items purchased under the prime vendor concept, found that our current costs are 25 to 70 percent higher.

We are very aware of concerns regarding subcontracting to overseas firms and manufacturers that may operate under "sweatshop" conditions. To prevent this, we have gone beyond domestic source standards by requiring that virtually all products be manufactured in the United States using domestic materials. Our standard contract clauses require contractors to comply with the Fair Labor Standards Act, the applicable standards promulgated by the Occupational Safety and Health Administration, and the National Labor Relations Act. A third-party quality assurance contract will monitor contractor and subcontractor plants, referring any possible violations to the appropriate enforcement agency. Our contracts also require the use of small business and minority- and women-owned businesses.

Through this change, the Postal Service's uniform purchasing program will reflect common industry practice and bring added value to our expenditures. It makes good sense for the Postal Service, its employees and its customers.

Best regards,
Marvin Runyon

Senator LEVIN. There has been some discussion here today about the bill our chairman has introduced, S. 1296, and I just want to ask you one question on that. We are really just getting into that issue. You and I spoke very briefly on the telephone about it, and I indicated we had not been briefed on it by the Postal Service, so I did not even know what was in the bill. But I did have a process question on that, and we are looking into it, as I mentioned to the chairman in a letter which I dropped to you, Senator Cochran, the other day, that we would look into the specifics of the bill as quickly as possible and get back with you on it.

But the question that I have is a process question on that bill, as to whether or not the Postal Service consulted with the Treasury Department or with business groups prior to that bill being introduced. Is that a process which you engaged in—because we are getting a lot of response from some of your customers and from the Treasury Department on that bill, and a lot of concerns have been raised. I am just wondering whether or not they were aired early in this process and whether you had dialogue and discussion with the Treasury Department and with business groups.

Mr. RUNYON. I did not specifically have a discussion with Treasury at the time this bill went forward. I did, however, some time ago, have a couple of meetings with the Secretary about those concerns and asked him to please look at them.

Senator LEVIN. The Secretary of the Treasury?

Mr. RUNYON. Yes, sir, Secretary Rubin. We have had those discussions, and Mr. Coughlin was there with me.

Mike, maybe you could talk about other meetings we have had with Treasury.

Mr. COUGHLIN. Senator, as a result of the reform bill that Congressman McHugh introduced last year, we have had regular, ongoing discussions with numerous stakeholder groups who have an interest and a stake in the outcome of that piece of proposed legislation.

A feature of that legislation is very similar to what Senator Cochran has proposed here. During the hearings last year, a number of those same groups endorsed the bill, including those provisions of it. Few if any, as I recall, expressed the kinds of concerns we heard expressed in the last couple of weeks, either in those hearings or in meetings that we have had with them.

Now, having said that, they expressed those concerns. Our reaction to them and certainly to the Senator was that we can accommodate those concerns, we believe.

Senator LEVIN. Good. Thank you both.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator Levin.

Senator Levin asked some questions about the labor relations issues, some of which I was going to ask. One that I do not think has been asked is do you see your personnel and labor-related costs being reduced a automation increases? I mean, you can make it almost a friend or an enemy, I guess, depending on how you embrace automation, but it seems like labor costs are coming down in many industries, and cost savings are occurring because of automation or new technologies. Are you finding that to be true in the Postal Service, or not?

Mr. RUNYON. I think that as we introduce automation, there will be fewer people. That has been discussed with the heads of the unions; I have had that discussion. And you need to ask them yourself—I am not trying to dodge your question—but you need to hear it from them. What they say to me, however—and I will relay this to you—is, we understand about that, we accept that, and we know that if we are going to be competitive, you are going to have to do the kinds of things that are necessary for us to be competitive, and we have to agree with that.

So I do not think there is any basic conflict here. Now, there would be a big conflict if I brought in 5,000 machines and put 5,000 people on the street. We have no intention of doing that. Our intention as we bring in the machines—is to work with the substantial attrition in the Postal Service. But even with all the automation we have brought in, we still have more people now than we did before we started because of the demand of the product. A growth of 2 percent a year or something of that nature; a growth in the number of places we have to deliver; all of that increases people.

So I do not think we are going to have a problem with that.

Senator COCHRAN. There was a letter last July, written by the president of the American Postal Workers Union, Moe Biller, in response to that GAO report that Senator Levin mentioned on labor relations in the Postal Service, and he says this, and I quote: "It is not its relations with its employees that is bogging down USPS operations; it is its management of its outside contractors."

To what extent do you agree or disagree with Mr. Biller's statement?

Mr. RUNYON. I do not know if I understand what he means by "management of outside contractors"; do you understand that?

Mr. COUGHLIN. Well, I think generally speaking, the union has been concerned about any efforts we have had to use outside labor sources to do part of the work we do. We have had several efforts in that area in recent years, so I am sure that is what he is referring to.

My own reaction would be that, no, I do not agree with him at all.

Mr. RUNYON. If that is what he means, I do not agree with it, either. He is saying that we—

Senator COCHRAN. But do you contract out labor?

Mr. RUNYON. Yes, sir.

Senator COCHRAN. Substantially, or is it a minimal amount?

Mr. RUNYON. For years, the Postal Service has contracted out. For example, we contract 15,000 flights a day with American Airlines, United Airlines, and others, to carry our mail. They are a contractor to us to carry mail from city to city. We have over 40,000 trucks on the highway operated by private contractors who move mail from city to city. We have that now.

We have a lot of people who work for the Postal Service as contractors. We have recently on Priority Mail set up 10 units on the East Coast where we have contracted with a company there—it is about a \$1.7 billion contract—where we deliver Priority Mail to them. They, in turn, take it from that location to the location nearest the delivery point, with dedicated air. We are contracted to do that. Mr. Biller is not happy with that—but we are doing that. And we did not do that to save money on labor. We do not save money on labor. What we did was buy a complete package to take that Priority Mail and deliver it to us in another city. That is where we are going to deliver it. They take care of the air and everything so that we can deliver it on time. And in the contract, there is a requirement that they have to meet a certain on-time schedule.

Senator COCHRAN. There is a structure, of course, in the Postal Service that is mandated by law in effect, and I wonder, in connection with this October 1997 GAO report about a better relationship between Postal Service labor and management, is there anything in the Federal statutes that you could identify that we could change or modify that would help bring about a better working relationship between labor and management?

Mr. RUNYON. The way the statute is written now, it says that we will participate under the National Labor Relations Act with our unions. And we do, and there is really nothing wrong with that. We have collective bargaining with our unions.

The only difference between us and a private sector union is that in our collective bargaining, the unions are not allowed to strike.

We go to mandatory binding arbitration. And I am not prepared today to ask you to change that.

Senator COCHRAN. Senator Domenici, I have a couple more questions, but if you are prepared to ask more questions, I will be happy to yield to you, sir.

Senator DOMENICI. Thanks.

I have just one, Mr. Chairman, and it might interest you also, just because it is kind of absurd, and you do not like absurd things to be happening with government.

Mr. Runyon, as you know from our previous correspondence, 1998—that is next year—marks the 400th anniversary of the first continuous European Hispanic settlement in North America. That event took place in 1598, when Don Juan Onate established the first permanent European Hispanic settlement in New Mexico just north of the little city of Espanola, at a church known as San Gabriel. You have been kind enough to urge the Citizens' Stamp Advisory Committee to reconsider their decision not to issue a stamp commemorating the stamp commemorating the 400th anniversary of this event, and I thank you for that effort. Unfortunately, the Committee has again rejected the 400th anniversary as a proper topic for a 1998 stamp.

I am puzzled by the process that the advisory committee uses. For example, Mr. Chairman, the Postal Service issued a new series of movie monster stamps for Halloween. Dracula, The Mummy, Phantom of the Opera, Wolf Man, and the Frankenstein monster were all honored with a stamp.

Now, I think there is some misplaced and, I might say parenthetically, monstrous, closed parentheses, values here. Dracula gets a stamp, but the 400th anniversary of the first permanent European Hispanic settlement in the United States does not. Dracula is about 60 years old, and Onate is 400. Dracula is a fake, a fiction; Onate is historical fact.

The one and only Wolf Man gets a stamp, but the heritage of millions of Hispanic Americans is ignored.

The Frankenstein monster gets a stamp, but the Nation's largest and fastest-growing minority gets no recognition for having been the first to settle in the uncharted waters of the United States from Europe 400 years ago.

The Phantom of the Opera gets a stamp, a Broadway plan, but the Postal Service will not recognize the cultural, social and economic relationships resulting from 400 years of an Hispanic settlement.

So the Mummy—who, as I see it, did darned little—he lay around; that is all he did—gets a stamp, but Onate, who blazed the first trade route, introduced Christianity to the whole region west of the Mississippi, is ignored.

Bugs Bunny got a stamp. And frankly, as one who represents a very large Hispanic community, I assume many of them should be "hopping mad" when Frankenstein is recognized over their 400 years of involvement in our culture and history.

I wonder what I can do about it or what we can do about it. Do you think the advisory committee has too much authority? I should not ask you to answer that.

Mr. RUNYON. I do not know that they have too much authority. I think that you have communicated to me very well, and I think I should go back and communicate with the Citizens' Stamp Advisory Committee again and see what we can do about it.

Senator DOMENICI. Well, I had three more questions, but you have answered them all by that statement, and so I have no further observations even about it.

Thank you very much. I would appreciate finding out as quickly as you can what their response is to your very gentle and kind, yet backed up by some very interesting facts—you could take these and ask them whether Dracula is more important than 400 years of Spanish history. That might be interesting.

Thank you, Mr. Chairman.

Senator COCHRAN. Senator, I commend you. You have been very persuasive and eloquent and clever in the way you presented your point of view on this subject.

Senator DOMENICI. Thank you.

Senator COCHRAN. I commend you. It reminded me of Silvio Conti, the distinguished Congressman from Massachusetts, who often would use persuasive language similar to that—but probably not even up to that standard for Silvio.

Senator DOMENICI. I remember he did one at Christmas once, didn't he?

Senator COCHRAN. Yes. He would do one annually. He would occasionally pick out an agriculture issue to make fun of. I always remember all of those. [Laughter.]

Senator COCHRAN. Let me say that I think we have had a good discussion. I have some more questions, and I may submit a few for the record that we have not been able to discuss. But one thing that I wanted to raise is that the postal rate issue to me is still one that bears some careful scrutiny.

I have heard that the Postal Rate Commission has expressed some concern in the past over the accuracy of data that is provided by the Postal Service that accompanies requests for increases. Are these concerns valid, and if you have heard them, what are you doing to try to address those concerns?

Mr. RUNYON. Mr. Chairman, I am going to let Mr. Coughlin address that since he has had more experience with the Postal Rate Commission than I have. And I like them, but I would just as soon not have to go for increases too often. But I think Mr. Coughlin can answer that question better than I.

Senator COCHRAN. Mr. Coughlin.

Mr. COUGHLIN. I think that fundamentally, the data systems and the data we provide the Commission are accurate and reliable, certainly enough to set rates in the manner they do. I think there were a couple of instances in the last rate case, one involving in-county newspapers, and the second one I have forgotten offhand. It was a relatively—I do not want to say unimportant—but it was a relatively small piece of the business. We did find some data problems there, and we corrected them during the course of that case.

As a matter of fact, right now, at the urging of Congressman McHugh and the GAO, we are taking a joint look with a third party contractor at our data systems to try to see how they are op-

erating and how they might be improved. I think when we get the results of that, we will have a better feel for how they might have to change in the future.

Senator COCHRAN. One of the concerns I have heard from some of the competitors—and I am curious to know your reaction to this, because I do not know what the seriousness of it is—do you use certain classes of mail to subsidize the cost of other classes, and is that prohibited by law? Are you not allowed to do that?

Mr. RUNYON. I will answer the question the way I think it is, and I will let the expert here tell me if I am right or wrong.

Senator COCHRAN. OK.

Mr. RUNYON. We cannot subsidize one sort of mail with the other part of our mail. Every mail has to carry its own expenses. Is that not right?

Mr. COUGHLIN. That is correct. Every class must cover its attributable cost.

Senator COCHRAN. You are asking for a 4.5 percent overall increase—but just a one-cent increase for First-Class Mail—is that right?

Mr. RUNYON. Yes.

Senator COCHRAN. How do you allocate the 4.5 percent increase? You say half your business is First-Class Mail? That sounds like a small increase for the First-Class Mail compared with a 4.5 for the overall increase. That means some rates are going to go up a considerable amount, aren't they?

Mr. RUNYON. On each class of mail that we have, there are different amounts for covering our costs. For example, we may have a cost coverage of 110 percent on one and 180 percent on another. Both cover their costs; one covers it better than the other. Where we have those that are about 90 percent, they are not covering their costs, so we have to increase more. We have one of those that we are going to catch a lot of trouble with in this rate filing. I have forgotten what it is, but we have one rate that is not making its costs, and it is going to be very troublesome when people understand that. But we do have a different rate coverage, or cost coverage, in each class. We do not try to make all of them come out the same, but they all cover their costs.

Senator COCHRAN. What about the advertising expenses? That is another question that is similar to this. Do revenues for the advertising budget come from the general fund, supported by all mailing, or are revenues taken from a specific mail category to pay for the advertising and marketing of that category?

Mr. COUGHLIN. They are treated as institutional costs, Senator; that means they are part of the general fund. Advertising is viewed as benefitting the institution as a whole, and it may or may not target a specific product.

Senator COCHRAN. Well, what about a minute ago when Senator Domenici asked a question about the Priority Mail advertising and how effective it is and is it working. Does the cost of the Priority Mail advertising come out of the general fund, or is it attributable to the costs of Priority Mail?

Mr. COUGHLIN. I would have to go back and check to be certain. I think it is part of the institutional base, but I would have to check for certain.

Senator COCHRAN. Another way to ask it is are the revenues from Priority Mail used to pay for the ads that promote Priority Mail; and similarly, are revenues from Third Class Mail used to pay for advertisements promoting Direct Mail?

Mr. COUGHLIN. Yes—I might add, though, that the contribution from Priority Mail, for example, the subject of the example you gave, is almost double the attributable costs that we incur. In other words for the \$3 we get for a basic piece of Priority Mail, approximately \$1.50 covers the attributable costs, and the other \$1.50 contributes to the institutional costs.

On other categories of mail, that might be \$1 of revenue and 5 cents of contribution. So there is quite a difference between the products and the spread.

Senator COCHRAN. Some in the newspaper business have raised objections to the Service's advertising campaign—I think it is "Direct mail delivers"—saying that a government agency should not use revenues from the sale of postage stamps to promote direct mail over other media such as newspapers, magazines, television and radio and the like. What is your reaction to that?

Mr. COUGHLIN. Well, first of all, let me say that, while they do not always believe it, newspapers are very important customers of ours. At the same time, I believe it is appropriate for the Postal Service to promote the use of the mail, generally, where we believe there is an effective utilization that can be made. That would include, in our case, the use of mail for advertising purposes. Advertising in the mail is a unique medium. It has its own set of benefits as well as disadvantages, and in fact, when you look at mail as opposed to other ways to advertise, there are clear differences. Somebody who is looking for a way to use media of any sort is going to examine those and ask what is the best way to get my message home. I believe it is appropriate on those occasions.

Senator COCHRAN. The question then follows, why should the Postal Service pay for the advertising rather than leaving the advertising and promotion of direct mail to the direct mail industry?

Mr. COUGHLIN. Because the use of advertising mail or any other product we have benefits directly the system as a whole in terms of the contribution in revenues that it brings to the system. The very large fixed costs we have and that expanding delivery service requirement that Senator Domenici mentioned earlier really requires this system to have volume in it to continue to thrive financially. The bigger the network gets, the bigger that fixed cost portion of that network gets, the more volume it has to feed through it.

Senator COCHRAN. Well, I think this has been a good hearing, and I appreciate very much the cooperation from the Postmaster General and the Deputy Postmaster General today.

We have had good Senator participation, we have covered a wide range of issues and, as I said before, there may be some other questions that we will submit for answers to complete our hearing record.

Let me end the hearing by congratulating you. I really do think you have done an outstanding job. The management team, while you have labor problems—in an organization this large, you are going to have problems—but we have had some experiences in the

past which I think you have addressed in a very effective and thoughtful way. Obviously, turning around the economics of the Postal Service has been a tremendous accomplishment, and I think the general public appreciates that, we appreciate it from a budget point of view, making a contribution toward keeping the deficit under control. We are reaching the point where the Federal Government is going to have a surplus, believe it or not, and that is coming as a shock to a lot of people—even those who designed the Balanced Budget Act. I let Senator Domenici get away before I made a comment like that.

You were talking about unexpected revenues which came in, “Christmas in August” as a result of the UPS strike, in effect. Well, the Federal Government has had some good news, too, on the financial front. But I think you have done a great job in that way and in looking to the future. Trying to figure out ways to hold down cost increases, I think is good for the country and good for the general public, and I congratulate you for that.

We are going to continue to work to resolve questions about the legislation to reform the Postal Service and to permit some new flexibilities. We will continue to work on that and try to answer other questions that might be raised about it.

Thank you very much. That concludes our hearing, and the Subcommittee is adjourned.

[Whereupon, at 3:59 p.m., the Subcommittee was adjourned.]

APPENDIX

ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD REGARDING USPS PLANS TO CENTRALIZE EMPLOYEE UNIFORM PURCHASING

1. Has USPS consulted with the Small Business Administration and the Office of Management and Budget in developing the uniform procurement consolidation proposal? If not, would USPS have any objection to allowing SBA and OMB to comment before the consolidation moves forward?

The Postal Service has not consulted with these agencies. While we are aware of no activities on the part of SBA and OMB regarding our plans to consolidate the purchasing of employee uniforms, their comments would be considered. We do not feel it would be prudent, however, to hold off implementation of the program.

2. Will USPS agree to suspend the uniform procurement consolidation effort while the General Accounting Office conducts a study on the likely cost savings to be achieved under consolidation and the potential impact on jobs in small and medium sized uniform businesses?

We would be happy to review the results of any General Accounting Office (GAO) study regarding uniform procurement. In fact, GAO studied uniform procurement in the Department of Defense and published its results in April, 1994. According to this study, "GAO maintains that the costs-benefits possible from adopting a prime vendor arrangement for items where volume is high and demand is more predictable appears to be substantial." The Postal Service is seeking the same arrangement under similar circumstances.

3. Deputy Postmaster General Coughlin testified that USPS intends to modify its uniform procurement consolidation proposal from the single-vendor to a plan involving between two and four uniform vendors. In light of this change in the procurement policy, does USPS intend to restart vendor prequalification?

There are no plans to restart vendor prequalification.

4. USPS has indicated that the president of the American Postal Workers Union expressed support for uniform procurement consolidation. What does the Postal Service believe to be the position of the leadership of the National Postal Mail Handlers Union and the National Association of Letter Carriers.

Each of these unions is party to a binding agreement with the Postal Service regarding these changes to our uniform program. As such, we would expect that the leadership of each union would support its agreements.

ADDITIONAL QUESTIONS FOR THE U.S. POSTAL SERVICE SUBMITTED FOR THE RECORD BY SEN. DOMENICI

1. Who appoints the members of the Citizens' Stamp Advisory Committee?

The members of the Committee are appointed by the Postmaster General.

2. Do the members of the Citizens' Stamp Advisory Committee serve for fixed terms, or at the pleasure of some official?

The Committee's members are appointed by and serve at the pleasure of the Postmaster General for fixed terms of 5 years, not to exceed three terms.

3. If the Committee serves at the pleasure of some official, who is that official?

See response to question 2.

4. What is the shortest period of time in which a stamp has been developed?

The shortest time frame for a regular commemorative stamp is the 4 month preparation for 1991's stamp honoring the American men and women who served in Operations Desert Shield and Desert Storm.

5. What was the timeline from the date the request was made for an AIDS Awareness stamp, to the time the decision was made by the Citizens' Stamp Advisory Committee to approve and issue the stamp?

Initial requests for an AIDS Awareness stamp were received by the Citizens' Stamp Advisory Committee (CSAC) as early as 1988. At its December 18, 1992 meeting, the Committee approved the subject and requested that designs be developed. The design was approved by the Committee at its July, 1993 meeting, and approved by the Postmaster General the same month. The stamp was put into immediate print production and was issued on December 1, 1993.

6. What was the timeline from the date the request was made for a Breast Cancer Awareness stamp, to the time the decision was made for its approval and issuance?

The initial requests for a Breast Cancer Awareness stamp were received by the CSAC in 1994. At the July, 1995 meeting, the Committee approved the subject and requested that designs be developed. The design was approved by CSAC at its September 29, 1995 meeting and approved by the Postmaster General in November, 1995. The stamp was then put into print production and issued on June 15, 1996.

